

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Atta Met With Iraqi Intelligence Agent In Prague

• The Wall Street Journal reported that suspected hijacker Mohamed ATTA met with an Iraqi intelligence agent in June, 2000 just before heading to the US to begin flying lessons. According to a Czech official, ATTA arrived in Prague from Germany, where he was a student at the Technical University in Hamburg. The suspect stayed in Prague and met with the Iraqi intelligence agent, either at the airport or another contact point. The Czech officials would not provide details of the meeting, but said that all information had already been passed to US investigators. Investigators in Germany have suggested that Iraq may have helped to provide false travel documents. The newspaper points out that Osama BIN LADEN's al-Qaeda network is not known to own printing presses needed to make passport quality documents. Since such presses are sold only to sovereign states, investigators speculate that a state eager to hurt the US must have been involved. US officials stress that there is no hard evidence of Iraqi participation in the attacks that destroyed the World Trade Center and damaged the Pentagon. As new evidence is gathered through the US network of committed coalition states, this position may change. In fact, an unnamed US official said that a possible Iraqi link to the attacks, "is not being dismissed." Some Republicans have argued that the BUSH administration would have to wage an outright war against Baghdad, if proof of Iraqi complicity emerged. If proof is received and acted on, Russia will have to choose whether it is with the West or the terrorist.

Interior Min.-FBI Share Terrorist Information

• In a continued warming of relations between Rus-

sia and the US, Russia's interior minister promised the FBI that Moscow will share any information it obtains on suspected terrorist Osama BIN LADEN and asked in return for US assistance in the international search for Chechen rebels, the Associated Press reported. Interior Minister Boris GRYZLOV told FBI Director Robert MUELLER in a telephone conversation late Thursday that his ministry would, "transfer all information on the activities of the so-called emissaries of Osama BIN LADEN in Russia," according to an Interior Ministry statement. Russia claims that BIN LADEN funded and trained rebels in breakaway Chechnya. An aide to President Vladimir PUTIN claimed earlier this week that at least four perpetrators of the September 11th attacks had fought in Chechnya. GRYZLOV told MUELLER there is a, "need for a closer bilateral cooperation in the search and detention of people who are members of international terrorist organizations. First of all, that concerns operations to detain people involved in the terrorist activities on the territory of the Chechen republic who are on a wanted list." Russian law enforcement agencies have placed 63 people on an international wanted list for alleged involvement in terrorist activities in Chechnya. Last week, the White House acknowledged it was concerned about the role of "international terrorists," in Chechnya. White House spokesman Ari FLEISCHER called on Chechen rebels to sever all ties with networks like al-Qaeda.

Russian Arsenal In Moldova: "A Candy Store"

• Head of the Organization for Security and Co-

operation in Europe's (OSCE) mission in Moldova William HILL said that a 40,000-ton stockpile of Russian weapons in Moldova is, "potentially destabilizing" and could be a temptation to terrorist groups. He said told Reuters, "The problem is, this is a candy store. I do not believe at the moment it constitutes a clear and present danger, but for years it has been a presence which is potentially destabilizing." HILL said the danger of proliferation pre-dated last month's attacks on the United States and said the arsenal, the biggest stock of Soviet weapons outside the Russian Federation, had always been eyed by groups looking for Soviet-era arms. He added, "Most of the ammunition is no longer of use to the Russian army. But it might be of use to groups or individuals who possess older equipment from the Soviet era, especially insurgent, rebel or terrorist groups." Russia's work to dispose the arsenal is ahead of schedule. By year's end, Russia will have disposed over half of the estimated 400 tanks, armored vehicles and pieces of heavy artillery, which had served the armies of the Soviet Union. Hill said the stash—which the OSCE hopes will be completely removed by the end of 2002—had always represented a threat to civilians in Moldova, in Ukraine and Dniester itself, which remains in the hands of Russian-speaking separatists. "As long as it remains in an area which is unstable, with unresolved political differences...we have no way of ensuring that this could not very rapidly become a danger or a destabilizing element, either here or elsewhere," he said.

UN Council To Monitor Terrorism Resolution

- Britain, Russia, Colombia and Mauritius were named on Thursday as members of a UN Security Council panel that will monitor the implementation of the counter terrorism resolution adopted last week. British Ambassador Sir Jeremy GREENSTOCK will head the panel. His deputies are Ambassadors Sergei LAVROV of Russia, Alfonso VALDIVIA of Colombia and Jagdish KOONJUL of Mauritius. The UN Security Council believes Britain had enough staff and backup in London to chair the panel, particularly in the legal area, Reuters reported. The Security Council late last Friday unanimously adopted a sweeping resolution obligating 189 UN member governments to freeze the finances and control the movements of anyone involved in terrorist acts. GREENSTOCK said, "Our first task is to explain to member states what kind of information

we are looking for and to go into the details about how they are expected to perform in response to the resolution." The committee has to present its plan of operation within 30 days and the UN member governments are expected to submit reports within 90 days on how they were carrying out the many demands contained in the resolution.

Economy

<p>Ruble = 29.50/\$1.00 (NY rate) Ruble = 29.50/\$1.00 (CB rate) Ruble = 27.09/1 euro (CB rate)</p>
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S&P, Fitch Rate Russia

- International credit rating agency *Standard & Poor's (S&P)* has affirmed Russia's single-B ratings and revised the outlook on its long-term issuer credit to positive from stable. The agency also said it could upgrade Russia in the coming months if economic reform progressed or downgrade its rating if structural reform delays continue. *S&P* said the positive outlook reflected improvement in Russia's policy environment, which was sustaining a strong momentum for reform, which began in May 2001. The agency said it was confident the government could reform the judicial system and banking sector in particular, and restructure large enterprises, especially in the energy sector. It said progress in economic reform, including implementing those already agreed, and prudent debt management could lead to an upgrade in the coming months. "Delays over structural reforms and/or weakening debt management policies could put downward pressures on the ratings on Russia, particularly in the currently uncertain international economic landscape," *S&P* said.

Meanwhile, *Fitch* raised Russia's long-term foreign currency rating from B to B+, citing a strong economic recovery since its 1998 devaluation and domestic debt default. The outlook for all ratings is stable. *Fitch* said in a statement that Russia's recent macroeconomic performance had been amongst the best of major emerging market sovereigns, estimating that gross domestic product would rise by 60 percent in dollar terms in 2000 and 2001. It said it expected the country's current account surplus would be \$84 billion at end-2001. Russia reported foreign exchange reserves at \$37.8 billion on September 27th, up nearly \$10 billion on the year.

FSB Fights Budget Cuts

- The Federal Security Service's (FSB) financial department has sent a letter to Russian State Duma speaker Gennady SELEZNYEV calling on him to restore 3.5 billion rubles (\$118.9 million) which has been cut from its 17.91 billion ruble budget for 2002, grani.ru reported. These cuts, made by the Cabinet and approved by the Duma in the first reading of the 2002 draft budget, would make the personnel of the FSB, "socially insecure," the letter stated.

Business

LUKoil To Invest In Kazakhstan

- The Russian oil giant *LUKoil* will invest \$1.3 billion in oil and gas projects in Kazakhstan before the end of 2001, a source in *LUKoil's* subsidiary, *LUKoil Overseas*, told RosBusiness Consulting. In total, *LUKoil* has invested more than \$1 billion in projects in Kazakhstan since 1996.

EUROPEAN REPUBLICS

Belarus Trains Iraqi Officers On Anti-Aircraft

- Vremya Novostei* reported today that Belarus is training 20 Iraqi air defense officers on how to handle S-300 anti-aircraft systems. Their training is part of a two-course at the Belarus Military Academy. One month of training in Belarus will reportedly cost Iraq \$2,500 for each antiaircraft gunner. The daily said the Belarusian authorities are keeping the contract on the training of the Iraqis secret, not wanting to exacerbate relations with the US. The Iraqi Embassy in Belarus told Belapan today that the news about the training is an, "absurdity and provocation." The newspaper added, according to rumors, Belarus has recently sold one S-300 system to an unspecified country in the Middle East.

Rus-Ukraine Reach Gas Debt Agreement

- Russian Prime Minister Mikhail KASYANOV and his Ukrainian counterpart Anatoly KINAKH on Thursday signed an agreement to restructure \$1.4 billion in gas debts. KASYANOV said, "We restructured the entire debt [of \$1.4 billion] for 12 years with a three-year grace period." Ukraine has said it would recognize it as corporate debt of state-owned gas

company *Naftogaz*. He said the interest rate was set at LIBOR plus one percent and that Ukrainian state oil and gas company *Naftogaz* would issue eurobonds to cover the debt, the *Russia Journal* wrote. The dispute over Ukraine's gas debts have soured relations over the years. The terms of the restructuring will give Ukraine vital financial breathing space, allowing the cash-strapped country to channel funds to support its economic recovery and modernize its obsolete Soviet-era industries, Reuters reported. The Russian gas deal terms are similar to an agreement reached in July with the Paris Club of creditor nations which restructured \$580 million of debt over 12 years. Ukraine consumes up to 75 billion cubic meters (bcm) of natural gas a year which makes it the world's sixth largest gas consumer.

Moldova Seeks Cheap Russian Gas

- Russian Prime Minister Mikhail KASYANOV is scheduled to hold talks with Moldovan President Vladimir VORONOV, Prime Minister Vaciliy TARLEV and Speaker of the Moldovan parliament Yevgeny OSTAPCHUK. The focus of talks will be the transit gas pipeline from Russia via Moldova to European countries. Moldova will seek to have the price for Russian gas decreased from \$80 per thousand cubic meters to \$65 to \$70. In turn, Kishinev would propose to decrease prices for the transit of Russian gas from 2.5 to 2-1.75 US dollars for a thousand cubic meters per 100 kilometers. In addition, Russian and Moldavian officials will discuss issues on gas supplies, the electricity industry, military cooperation, and an easing of the tax regime for its exports to Russia. The *Unified Energy Systems of Russia (UES)* monopoly earlier said it was ready to invest into the modernization of this major power plant in the southwest of the Commonwealth of Independent States (CIS). The problem is that the plant is situated on the territory of the breakaway Dniester republic of Moldova. They are also going to consider ways of raising the volume of traditional Moldavian exports, such as wine, fruit and brandy. Finally, KASYANOV may raise the question on the fate of Russian ammunition depots that remained in Moldova after the withdrawal of Russian troops.

SOUTH CAUCASUS & CENTRAL ASIA

Fighting Flares In Abkhazian Border

- Georgian and Chechen gunmen on Wednesday

seized the village of Georgievskoe in Georgia's breakaway region of Abkhazia, about 32 miles northwest of Sukhumi, after a battle with Abkhazian residents, Reuters reported citing the Abkhaz media. An Abkhaz spokeswoman said that two checkpoints of Russian peacekeepers were also captured. The Caucasian Press reported that the force of 400 to 500 Chechens and Georgian advanced from Abkhazia's Kodori Gorge. Abkhaz Defense Minister Vladimir MIKANBA said that the death toll remains at 5, one Abkhaz serviceman and four civilians. Seven villagers are reported missing, RFE/RL Newsline reported. The village population is said to be mostly Greeks and Armenian. Caucasus Press also reported Chief of General Staff Lieutenant General Joni PIRTSKHALAISHVILI dismissed the reports of fighting as "disinformation," and saying that the headquarters of the CIS peacekeeping force had similarly confirmed no fighting had taken place. Conflicting reports call everything into question.

Russian media reported that the "fighters" came from a group led by Chechen Field Commander GELAYEV. On Thursday when Abkhaz forces arrived in the village of Georgievskoe, no "fighters" were present. The "fighters" are now moving toward the area between Georgia and Kabardino-Balkaria region. Russian border guards are preparing to prevent the armed men from entering Russian territory. MIKANBA and Abkhaz Foreign Minister Sergei SHAMBA said two of the assailants, one Georgian and one Chechen, were captured on Thursday and have been taken to Sukhumi where they are being interrogated. The Abkhaz media has reported that the two were trained in Pankisi Valley by Arabs and Chechens. An independent Abkhazian source said that this was not a Chechen operation, but strictly Georgian. Itar-Tass reported that four trucks armed with Georgians were detained at the post of the CIS peacekeeping forces on the Georgian-Abkhazian border on the Ingur River. According to the news agency, the trucks were headed to village of Georgievskoe village to provide support to the Georgian partisan units. The Russian Foreign Ministry Thursday called on the Georgian government to immediately prevent, "a group of terrorists that includes Chechens," from operating in the immediate vicinity of the Georgian-Abkhazian conflict zone, stating that the group is a risk to regional stability. In response, units of

Georgian military have moved into positions to rapidly respond to any uncontrolled movements of the "fighters," be they Georgians, Chechens, or mercenaries from the North Caucasus.

Georgia has long accused Russia and its so-called peacekeepers of fueling and instigating tensions between Georgia and Abkhazia. Abkhazia's First Deputy Defense Minister Vladimir ARSHBA told the Prime News Agency that Russian military colleges have been supplying manuals and other specialist literature to the Sukhumi Military School.

Meanwhile, Interior Ministry troops, under the order of Interior Minister Kakhah TARGAMADZE, began an operation in Pankisi Valley on Thursday to free Azeri hostages. Russia had requested that it conduct a joint operations with Georgia to rid the valley of Chechen rebels. Georgia has rejected the joint operation, for fear that it will help facilitate an expansion of Russia's military offensive into Georgian territory.

Armenia Restricts US Use of Airspace

- Armenian General Headquarters chief Michael HARUTYUNYAN, after meeting with Russian General Chief of Staff Anatoly KVASHNIN, said that even though Armenia had offered its airspace to the US, it doesn't mean that US airplanes can freely use it at anytime or anyplace. He said, "Without agreement of Armenia, American airplanes cannot use the international airway going through our country. We should be warned beforehand as far as even the change of time and direction means violation of [our] country's air-border," Armenian National TV News reported on Wednesday. KVASHNIN, while in Yerevan, said there was no reason to provide the services of the Russia's 201st unit, located in Tajikistan, to the US. Turkmen President Saparmurat NIYAZOV said Thursday that Turkmenistan would not permit its military bases to be used by country or become a channel for the transport of arms. He stressed that Turkmenistan will always abide by its commitment as a permanent neutral state, the Middle Asia International Interfax news agency reported.

**Excerpts from His Excellency Georgian President Eduard Shevardnadze's
address to the Institute of Central Asia and Caucasus
of the Johns Hopkins University School of International Studies
and the American-Georgian Business Council
at the Willard Hotel
October 4, 2001**

"We regard this [September 11th] attack tantamount to an attack against our own country...This was an assault against humanism and democracy. Once again, I confirm Georgia's support for the global anti-terrorist coalition proposed by President BUSH."

"These horrendous crimes once again demonstrate that democracy itself does not guarantee security. That those who claim to be defenders of democratic principles must clearly demonstrate their unwavering conviction that there is no alternative to the road leading to democracy and freedom. My life's goal is to see that Georgia never departs from it."

"Corruption deals its harshest blows on our budget. Revenue collections are intolerably low. As a result, police, power ministries, and other law enforcement bodies are under-financed. If not for our foreign friends and, particularly America and her allies within NATO, the World Bank, EBRD and the EU, these vital areas would have inevitably collapsed long ago."

"In the final analysis, indicators of the strength of a nation is not the presence or absence of corruption. Some countries that enjoy a longer history of statehood, or started under far better conditions do face similar situations, perhaps even worse ones. The strength of the Georgian State and our society lies in the very fact that we have not succumbed to this malaise. Neither do we accept it. We fight it openly. We ourselves have set very high standards - standards commensurate with developed countries. Standards that are difficult to achieve in a short period. We strive to attain these standards through the democratic process, which is often noisy, vocal, controversial - sometimes spiteful and often unpredictable."

"Today, Georgia is a hub of the new dynamic processes that will shortly change the very face of Eurasia... First, the north-south linkages that once defined the Caucasus and Central Asia as separate regional entities are rapidly giving way to east-west linkages, uniting countries that share a wide range of economic interests into a wide belt of stretching from the Chinese border to the Black Sea. This belt is known as the New Silk Road...Secondly, relations with the Euro-Atlantic space increasingly determine the future of the South Caucasus, or to be more precise, Southeast Europe, and Georgia in particular...Energy development is yet a third important dynamic of Georgia's new story. While we have little energy of our own, Georgia will be one of the main transit routes for Caspian energy from land-locked Central Asia to world markets."

"Russia's desire to conduct military operations on our territory against Chechnya is central to Georgia's security. An infinitely protracted war at Georgia's border is our growing headache. First, it prevents thousands of Chechen refugees sheltered in Georgia from returning home. Secondly, it feeds Russia's propaganda campaign blaming Georgia for supporting separatists. These accusations are without any evidence, thus justifying an ever-increasing pressure on Georgia. Thirdly, if Russia is to be believed this segment of the border is securely sealed from its side."

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